C8650-5A

Stock Buys For a Low-Tax Era

DUN'S BUSINESS MONTH

OCTOBER 1986 $3.00

COMPUTERS THINK FOR BUSINESS

Executives Plan Second Careers

Pitfalls in Global Restructuring

ALSO FEATURING:
THE BUSINESS NEWS OF THE MONTH

69

Feature Departments

TECHNOLOGY

Computers Think for Business 30

Expert systems are out of the lab and solving a wide range of manufacturing problems.

- **Financial Services: Slow Start, Huge Potential** 32
- **Expert Systems Pay Off for Westinghouse** 35

GLOBAL STRATEGY

The Pitfalls in Global Restructuring 40

As international companies jockey for strategic niches, they are finding that many are overcrowded. And exiting businesses can be costly, too.

- **Chemicals: Niches Are No Protection Against the Giants** 42

MONEY & MARKETS

Mutual Funds: Wall Street's Cash Cow 46

Securities firms' in-house mutual funds are helping to smooth out their volatile earnings.

- **Wall Street's Largest Money Management Machines** 47

MANAGEMENT

Executives Prepare for Second Careers 48

Before the merger or restructuring hits, savvy executives make contingency plans. Many find a satisfying new life.

Spotting Bad Apples: The Warning Signals 54

In-depth interviewing can help managers detect a Dennis Levine, an alcoholic or other types of executive troublemakers.

- **Psychologists' Advice on the Hiring Interview** 55

INDUSTRIES

Auto Suppliers Race Into the Future 58

As the automakers increase their outsourcing, partsmakers compete for contracts for whole systems.

COVER ILLUSTRATION BY EARL KELANY

DUN'S BUSINESS MONTH

October 1986, Vol. 128, No. 4

New Allure of High-Dividend Stocks 61
With tax rates headed down, investors are rediscovering stocks that combine income and appreciation.

- **Stock Buys for A Post-Capital Gains Era** 62

SHIPPING

Showdown on The Waterfront 66
Nonunion labor is loosening the Longshoremen's union's fifty-year hold on the docks, and rates are falling.

- **Hank Milam: Proud of Being A "Scab-Herder"** 67

The Making of A Mogul 68
An irreverent primer describing the life and times of those who are more than merely rich.

- **Leff: "I'm More Like a Yogul"** 69

Letters 5
The trouble with small railroads.

Managers in The News 9
Pioneer to lead Drexel.

Managing Information 93
Tax reform is changing the rules of the computer buy-or-lease equation.

Dun's Analysis 97
Business Failures Mirror the Bicoastal Economy

Personal Finance 99
Big Jump In Take-Home Pay
Oil and Gas After Tax Reform

Investment Update 100

The Business Month

27

- *Bulls run for the exits* 16
- *The Hunts' gamble*
- *Litton sues Shearson*
- *U.S. equities lure Japanese*
- *London challenges NYSE*

- *Owens-Corning's anti-takeover tactic* 20
- *Japan's fading ethic*
- *HMO user study*

- *Airline mergers* 21
- *Chip price uproar*
- *Auto profits slide*
- *New playpens for Baby Bells?*

- *Tax hike next year?* 13
- *Senate control battle*

- *Slow growth scenario* 13
- *Big play in platinum*

- *Black Rock bombshell* 14
- *Coke's big offering*
- *Pentagon slaps Lockheed*
- *IBM chucking cheap clones?*
- *Weill's Control Data deal*
- *Merger roundup*

- *Japan's weak economy* 25
- *GATT talks tackle services*
- *Ireland's home-grown high tech*

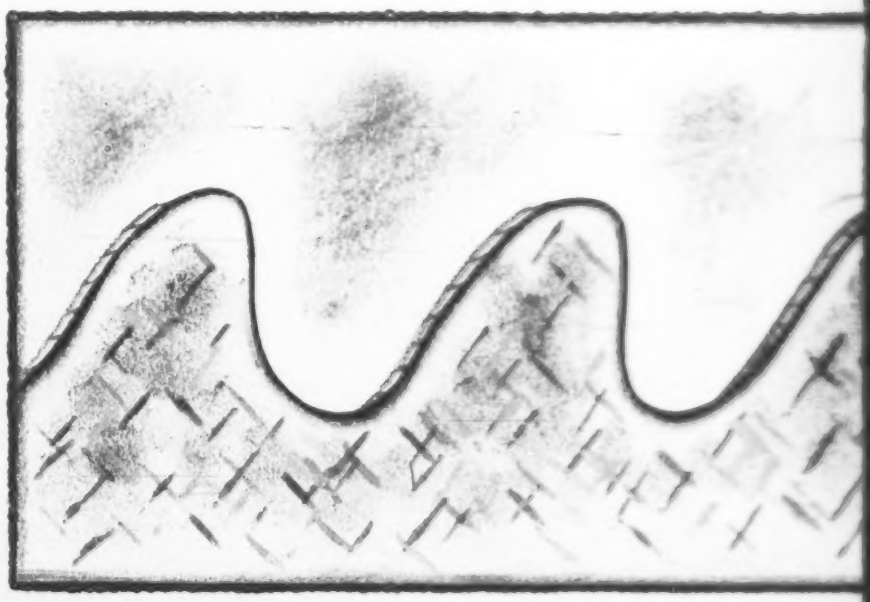
- *New deferred tax rules* 27

- *Wages outstrip fringes* 27
- *Rise in two-tier pay?*

Mutual Funds: Wall Street's Cash Cow

Management fees from in-house mutual funds are evening out securities firms' volatile earnings.

by Leah Nathans



Move over Dreyfus and Fidelity! The biggest player in the booming mutual fund business isn't a money management company, but a securities firm: Merrill Lynch, Pierce, Fenner & Smith. Merrill and other Wall Street brokers are launching their own funds at a record pace and using their own salesmen to bring in the bucks, while the handsome management fees roll in.

Take Merrill. With $61.3 billion under management, the brokerage goliath earned $183.2 million in management fees. It pocketed, say, about a third of that, $55 million—a hefty chunk of the firm's total $234.4 million in earnings in the year ending June 30.

At Dean Witter Reynolds, Prudential-Bache Securities, Shearson Lehman Brothers and several other Wall Street wirehouses, fees from in-house mutual funds are now an important source of earnings (*see table*). The boost was a big factor at E. F. Hutton: Its estimated $17.6 million net from fund management fees (assuming it cleared 30% of the take) was more than half of its $29.9 million earnings in the twelve months ending June 30. And according to the Securities Industry Association, The Street's trade group, money management has been the securities business' fastest-growing profit area in the 1980s.

A large piece of the fees is pure profit. Based on the net earnings of publicly traded mutual fund companies, analysts estimate, brokers get 20%-to-30% net profit on their management fees, even though such fees represent only about 4% of total revenues. The fees are smoothing out The Street's usually cyclical bottom lines. "It gives us constant versus fluctuating income," says Michael Downey, senior vice president, financial services, Prudential-Bache. And compared to the ups and downs in trading and underwriting, these are "higher quality" earnings, says mutual fund expert Michael Lipper, president of Lipper Analytical Securities Corp.

Some believe that fat mutual fund holdings are the most valuable part of brokerages and make Merrill Lynch, E.F. Hutton and Paine Webber attractive takeover candidates. Money manager Harvey Eisen, president of Integrated Resources Asset Management, believes that if Hutton spun off its mutual funds, they would sell for half of the entire company's price. As it is, securities firms shares, he says, are "vastly undervalued."

Behind Wall Street's new love affair with money management lies a decade-long decline in equity commissions. The diminishing number of individual investors and the growing power of discount brokers have taken their

ILLUSTRATION BY ALEXA GRACE

toll on commission revenues. While the dollar amount of commissions rose, its share fell five percentage points in the past two years, says Lipper. It is now only 15.1% of total revenues, versus 45.8% ten years ago.

Meanwhile, mutual funds are one of 1986's big success stories, attracting $73.8 billion in the first half of 1986, double all of 1985's sales. Dubbed "packaged products" by Wall Street, mutual funds have proved to be the McDonald's hamburger of financial products. Instead of chancing the intricacies of specific stocks or bonds, small investors—particularly working couples who don't have time to manage

money—prefer paying professional money managers. "Even brokers have their money in mutual funds," says senior vice president Tom McInerney of E.F. Hutton & Co.

But mutual funds weren't always the darlings of Wall Street. Fifteen years ago, Merrill Lynch forbad the sale of mutual funds. Securities firms hated the idea of locking up people's money in a long-term account instead of collecting commissions on their own buy and sell suggestions. "Brokers felt *they* were money managers," says Reg Green, editor of the *Mutual Fund News Service.*

In the late 1970s, however, the small investor stampeded to cash in on high yields previously accessible only to wealthier investors who could afford to buy a $10,000 CD. Mutual fund managers like Dreyfus cashed in on money market funds and then wirehouses jumped on the bandwagon. And after money market funds came municipal bond funds and government securities funds—80% of sales are in fixed income funds.

Now, brokerage firms distribute their own as well as other managers' mutual funds. Hutton's sales commissions on mutual funds were 24.5% of its total retail commission income. At Prudential-Bache, one in five retail transactions is a mutual fund sale, says Harry Jacobs, senior director.

But it's in-house money that is on the rise, says Joel Rosenthal, vice president, Jesup & Lamont Securities Co. The firms give brokers about two percentage points higher commissions for selling their own funds than others. "Our strategy is to put assets on the books," says Merrill Lynch's head money manager Arthur Zeikel.

It's easy to see the appeal of the money management business for Wall Street. Managing money is a high-profit, low-overhead business, with little more than an office and a telephone required. The brokerages are leveraging their built-in army of retail salesmen to collect mutual fund assets. "Brokers are becoming asset-gatherers," confirms Hutton's McInerney.

The securities firms reward brokers for selling funds with hefty payouts. With mutual funds charging a 6%-to-8% commission, the broker has to do three trades of $20,000 worth of stock to equal what he would get in commissions from one $20,000 mutual fund sale, estimates Floyd Jones, account executive, Drexel Burnham Lambert.

To compensate brokers for selling mutual funds, some funds have trail commissions that pay them over the life of the fund. And contrary to Wall Street tradition, the securities firms are dipping into their own pockets to pay brokers an up-front commission on sales of the new 12(b)1 funds (in order to compete with no-load funds, these spread the load over time). "We're taking a little bit longer view of the business," says Michael Downey, Prudential-Bache Securities.

For brokerages, the growth has been nothing short of phenomenal. In 1976, when Merrill's Zeikel first came aboard, Merrill managed a grand total of $500 million. Now he presides over an empire of about fifty different funds. "It's astonishing," says Zeikel.

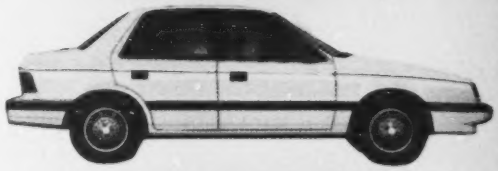
But how long will individuals continue to have confidence in professional money managers? Nobody knows the answer to that one. But meanwhile, Wall Street is cashing in on the funds' popularity. Brokers are selling 70% of all mutual funds and individuals willingly pay a 4%-to-8½% sales charge to buy a mutual fund from a broker, even though they could get a similar fund for no fee by answering a newspaper ad or calling an 800 number. "Brokerages have been flailing around for a new source of income," says Nancy Young, analyst, Tucker, Anthony R.L. Day. "Now they've found it." ■

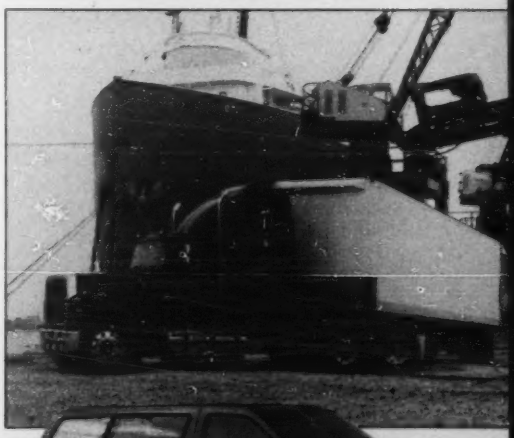
WALL STREET'S LARGEST MONEY MANAGEMENT MACHINES

SECURITIES FIRM	MUTUAL FUND ASSETS† (billions)	MANAGEMENT FEES† (millions)	NET INCOME* (millions)
Merrill Lynch	$61.3	$183.2	$55.0
Dean Witter Reynolds	27.3	62.9	18.9
E.F. Hutton	17.0	58.7	17.6
Prudential-Bache	16.7	55.4	16.6
Shearson Lehman Brothers	13.4	29.4	8.8
Paine Webber	11.5	27.9	8.4

†Lipper Analytical Securities Corp., as of June 30, 1986. *Estimated at 30% of management fees

Fleet Management: Update '87





Despite fuel price plunge, fleets stick with four-cylinder cars; but insurance premium increases pose a new problem for fleet administrators

Since the first Fleet Management Focus Report in 1981, the process of coping with a changing vehicle operating environment has been continual—and a fruitful one—for fleet administrators. *Contain costs* was the mandate from management, and administrators took a closer look at vehicle types and fleet composition, analyzed functional needs of the operators and—despite some bruised egos—entered into aggressive downsizing programs. The manufacturers, of course, responded to the fuel crisis by developing smaller, more fuel-efficient vehicles, most featuring front-wheel drive and four-cylinder engines.

In recent years, common sense has prevailed, despite gripes and groans from the troops in the field, who were attached to their 8-cylinder fuel hogs. Fleet administrators—backed by top management—stayed on course. Lo and behold, costs plummeted dramatically, early maintenance problems were solved and—wonder of wonders—drivers were actually getting used to the smaller cars; encouraged in part by fancy trim and bonus accessories, as well as improved fours with more power and turbo availability. (See 1987 Fleet Lineup, pg. 72) The fleet jury is still out on turbocharged fours, but just hanging a *Turbo* tag on a car seems to have a positive effect. Whether it'll make them forget sixes remains to be seen.

Both the manufacturers and the fleet administrators did what they had to do and by the 1986 model year it was time to sit back and relax a bit as stability reigned and fleet sales were back up to normal levels of 16-to-18% of production. But just when it looked like clear sailing, a dark cloud appeared in the form of soaring insurance premiums, and now fleet administrators, with their well-planned cost containment programs, are being battered by a storm that shows no signs of abating.

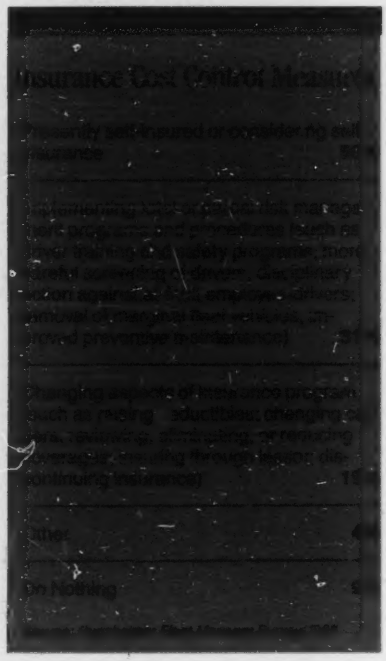
With accustomed resiliency, fleet managers are fighting back. According to a survey by *Runzheimer Reports on Transportation*, the industry newsletter, fully 50% of the respondents' fleets are now self-insured or considering self-insurance; 31% have begun complete or partial risk management programs; and another 19% are "changing aspects of their fleet insurance programs." The report notes, however, that "a significant element in self-insurance is that the company have an adequate number of vehicles from which to determine probable future losses." Obviously, it's not the answer for a small fleet or an underfinanced firm.

To define: Under the self-insurance concept, a company assumes all or a portion of the risk, usually establishing a fund reserve to cover possible losses.

Risk management, on the other hand, attempts to prevent loss through programs such as driver safety and training. Changing aspects may involve such factors as raising deductibles, changing carriers or insuring through lessors. These are strictly matters of strategy and *best left to staff insurance specialists*. A fleet administrator has enough to do without setting up an *ad*

hoc internal insurance company!

In any event, risk management is a *must*, whether or not a company chooses to self-insure.



Another factor that should drive up fleet costs—and help drive managers further up the wall, whether a fleet is owned, leased or a combination of the two is the Tax Reform Act and its provision to eliminate the ITC as of January 1, 1987. But since companies *must* have fleet vehicles to operate, they'll just have to grimace and bear it.

In summary, fleets are humming along hardware-wise; it's just the outside pressures that are giving fleet administrators fits and forcing them to be more adaptable and prepared for rapid change than ever before. But they've come through other crises. In the way of products, at least, they'll have few complaints.

Generally speaking, fleets across the board have embraced the fours, and, according to Runzheimer (who tracks such things better than anyone), fully 38% of fleet managers surveyed say they would increase the number of four-cylinder cars in their fleets, while 28% will decrease the number of sixes; 32% will do so with eights. The latter seem to be on the way to becoming dinosaurs.

As to fleet composition, vans and minivans have made significant gains. In addition to large cargo/passenger capacity vans, minivans and light trucks are easy to sell to employees at replacement time, taking another burden off the fleet department.

(In fact, one of Runzheimer's many surveys shows a 12% drop in fleet autos, offset neatly by a gain of 3% in minivans and 9% in vans.) On the truck front, the lightweights are going through the proverbial roof, with domestics and imports both faring well. Mediums and up are holding their own, while heavy duty trucks continue to flounder, victims of a changing economy and evolving patterns of distribution. Translation: Companies just don't need as many heavy trucks anymore.

On the positive side, the domestic car manufacturers project fleet gains for the '87 model year, or at least expect to remain at the '86 level, which was a very good year. As in past Focus Reports, *Update '87* covers a variety of fleet management aspects, as well as case histories. (For more detail reading refer to *Information, Please* on page 90.) —J.C.

'87 Fleet Lineup: A Refined Group

To the casual observer, 1986 looked like a quiet year for fleet managers. The nation's economy inched along steadily without demonstrating any dramatic growth. Inflation did likewise, exhibiting none of the breathtaking leaps and bounds of years past.

The calm economic scene was mirrored in the relatively few new offerings fielded by the major carmakers. Ford's Taurus and its Lincoln-Mercury cousin, the Sable, introduced for the 1986 market year, continued to fare well in the fleet as well as in the general public's market. Over at Chevrolet, the Celebrity accounted for a full third of that manufacturer's fleet sales. American Motors Corp., on the other hand, is planning an ambitious line of new cars that will come on line in the next two years.

The market for fleet cars stabilized in 1986, but at a high level, as high as it has been for the past couple of years. Industry observers expect another good year in 1987. Overall, fleet sales accounted for roughly 16%-to-17% of total output for domestic carmakers, with imports doing well in the light truck field.

Chevrolet

Chevrolet's Celebrity is not only Chevy's number one fleet seller, it's the best-selling fleet car of all the manufacturers. As stated, Celebrity accounts for a third of all Chevrolet fleet sales.

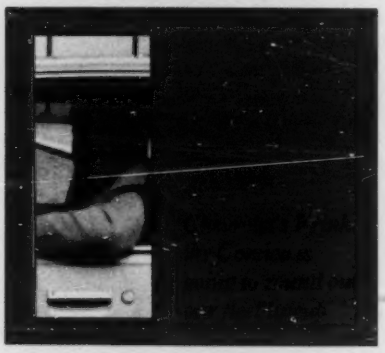
The gap in the Chevrolet lineup left by the demise of the Citation will be filled in 1987 by the all-new-four-door Corsica and the two-door Beretta. These two cars will become available to fleets in March 1987 and will fall into the compact class. However, Chevrolet Director of Fleet Sales George Frink points out, "They'll be big compacts, larger than Ford's Tempo. They're not the wedge or the jelly-bean shape; they have a distinctive look and there's nothing comparable any where."

Chevrolet's fleet offerings start with the no-frills Chevette. Priced at $4,995, it's a natural choice for the utility and resorts rental market. The mid-compact slot at Chevy will soon be filled by the Corsica, Beretta and slightly fuller-sized Celebrity, with the top end of the size scale taken up by Chevrolet's full-size, rear wheel drive Caprice.

According to Frink, Chevrolet suffered a shortage of V-6 engines, understandable when you consider that engine production plans were formulated in anticipation of $2.50/gallon fuel prices. Nevertheless, Frink has high praise for Chevy's four-cylinder powerplant. "Our dual overhead four can run

Chevrolet Celebrity: tops in fleet sales

rings around the six. The difference is mental, really, and the performance differences are insignificant when you consider that you lose the incentives that come with a four. With the higher price you pay for a six, you can be $1,500 out of pocket. What's more, with the four-cylinder Chevrolet models, you



get free air-conditioning. We're getting ten more horsepower out of our fours this year, and they all will be fuel-injected.

"For those that want them and are willing to pay the price, the supply of sixes will be better after the first of the year (no one wants eight-cylinder cars anymore). You decide if it's worth $1,500 for 18 cubic inches of difference and some perceived performance advantage," Frink concludes.

Chevrolet fleet sales are projected at about 270,000 cars for 1987, about 16% of the total production run. Around 100,000 Chevrolet light trucks are expected to go to fleets, 10% of production. "The Astro Van really started moving in 1986 following some tests by the large fleets and we expect to see a 5%-to-6% boost in sales of that model in 1987," Frink projects. "It began on the drawing board as a genuine truck, not a van, so it has more power and payload than its competitors."

Buick

Hurt by last year's demise of the X-body Skylark, its best selling fleet car, Buick expects to bounce back thanks to increased acceptance of its new *compact* Skylark, introduced late in the 1985 fleet selling season. "We have a strong lineup for '87 and expect to hit fleet selector lists in all the major categories," says R.L. Henderson, Director of Fleet Sales.

He sees the new Skylark as Buick's entry level compact, with the Century occupying the middle position and the LeSabre as the prestige Buick fleet car. Bad timing in releasing the Le Sabre resulted in disappointing fleet sales, but Henderson maintains the car is in excellent supply now.

"The Skylark has been priced lower by deleting several of the accessories that were pricing it out of the fleet manager's ballpark" he says. "We've corrected our problems and with the Skylark and the LeSabre; we project being back up to 120,000–130,000 units for 1987; about 15% of our production."

Buick has traditionally occupied the top end of the fleet market and carried a truly regal resale value. Buick's market position is reflected in the fleet incentive program offered by the carmaker: a package that includes cassette players and a wiring harness for a mobile phone. "We're selling value and a better resale performance as well as the morale factor. People given a Buick feel better about their position within a company.—it's a genuine incentive. When

Buick LeSabre: top end winner

all the factors are weighed, the fleet Buick costs only a few dollars more than the low-priced three," Henderson sums up.

Oldsmobile

Olds introduced no new models for the fleet market this year, instead offering a line-up featuring some subtle styling changes along with some functional improvements. Olds' Firenza, a sporty little mover, is powered by a two-liter, four-cylinder engine with improved horsepower and greater torque.

The Calais remains essentially unchanged, except for the puzzling substitution of an AM-only radio for the AM/FM radio that had been standard equipment. Downscaling of the radio package has also happened to the Ciera and Cutlass Supreme models.

Olds' Ciera line now includes a station wagon model, while Olds' Delta 88 full-size, front-wheel-drive model is

Olds Cutlass Ciera: fleet strength

powered by a beefy 3.8 liter V-6, the only engine available for that model and replacing Delta's previous three-liter powerplant.

Pontiac

In fleet sales, Pontiac is the third best-seller in the General Motors stable, up from dead last just a year ago according to Pontiac's National Director, Fleet Sales Nelson Karney. Pontiac sells two designs to fleets: the mid-size Pontiac 6000 and Grand Am.

Pontiac fleet sales rose 27% in 1986, with some 45,000 model 6000s entering U.S. fleets in 1985, along with 36,000 Grand Ams. "Preliminary figures for 1986 indicate a 17% rise in Pontiac fleet sales, and we expect to see a 12%-to-15% rise over that in 1987," says Karney. "That's an across the board increase of 55% over three years. We're very proud of it."

Karney is also proud of Pontiac's new Bonneville, a venerable Pontiac brandname line that saw glory in the 1960's when gas was cheap and cars were huge. "People remember those days of the Bonneville," Karney says. "It was a fantastic car, with real style. We're bringing it back in the new Bonneville." This latest edition of the classic is a real six-passenger car, the first of its line with front-wheel drive, and it replaces the now-defunct Parisienne as Pontiac's full-size four-door.

Perhaps in memory of the muscle cars of yore, Pontiac still powers some of its cars with optional six-cylinder engines. The Bonneville is only available with a six-barrelled powerplant, while about 45% of Pontiac 6000s sold feature six-cylinder engines. The beefier engine is even less popular in the Grand Am; four-cylinder engines account for all but 20% of sales.

"Customers that want the six-cylinder

engine pay more for it, from $350 to $800 more, depending on the model," Karney says. "And the six doesn't have that much horsepower compared to the four, thanks to a lot of major improvements we've made in research and development into the four.

"Style is one of Pontiac's major drawing points for the fleets, because after all, it's the needs of the drivers that

Pontiac's 6000LE: high resale value

make the decisions for fleet managers. Pontiac cars are a little sportier than the rest and people don't want to drive a box anymore. Options are important to our customers, things like AM/FM stereo, cruise control and power controls.

The cassette tape player is especially popular, and a lot of companies are using it as a way of reaching their people, using cassettes as a way to distribute product information, memos, etc. Motivational tapes can reach people in an on-the-road environment when they're away from the phone, free from distractions.

"Another major drawing card for Pontiac is resale, where Pontiac really shines. Falling interest rates have hurt the late-model used market, cars less than a year old. The rental car companies have taken it on the chin in that regard, but two-year-old fleet cars have held their own in the resale market."

Cadillac

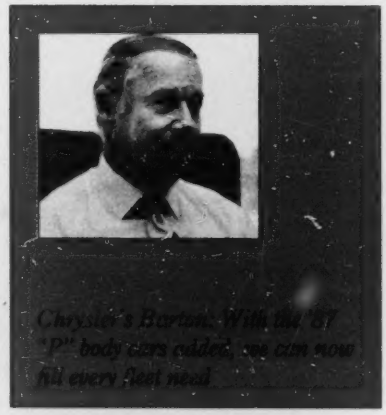
With the exception of some of the racy, exotic imports, Cadillac is still the *ne plus ultra* of the company car. The '87 line is classy, but essentially unchanged from 1986 offerings, which included a redesigned Eldorado and Seville. New options include factory-installed cellular phones along with various comfort improvements.

Chrysler

Fleet car sales are important to Chrysler because it sells fleets a higher percentage of total production than any other maker—24%, compared to the industry average of 16%-to-17%. 1986 was a good year for Chrysler, with car fleet sales up 12%. Truck sales were down slightly, mainly because Chrysler closed a plant for retooling, thanks to a model changeover and had nothing to sell.

"Over the next five years we're committed to more than $12 billion in new product development, plants and equipment," says H.L. Barton, Chrysler General Manager of Fleet Operations. "During that period, all vehicles in the line will have to be replaced. We'll be introducing a new product every quarter."

New to the Chrysler lineup for 1987 are the P body cars—the Dodge Sundance and Plymouth Shadow. Chrysler is billing these as high-value, "fun to drive" cars, and they were well-



Chrysler's Barton: With the '87 "P" body cars added, we can now fill every fleet need.

received during a recent ten-city fleet tour. Aside from these newcomers, Chrysler's primary fleet lineup begins with the Dodge Omni subcompact, followed by the new P cars and venerable standby K cars with the Chrysler LeBaron (soon to be available in both two-door and convertible versions) and counterpart Dodge 600 filling the upper management end.

New in the utility categories are the Chrysler T115 mini-vans: Caravan and Voyager. Increased demand for the pair has resulted in a second production plant, appropriately named "Dodge City," set to open in St. Louis next spring. The plant will also produce standard pickups as well as B model vans. With this increased level of truck production, Barton predicts an upswing in truck sales for 1987. Chrysler is also introducing a new light utility truck—the Dakota.

Chrysler offers no six-cylinder cars and management feels good about its decision. "Fleet administrators are upscaling equipment packages, not car size. Chrysler fleet cars are 100 percent four-cylinder. We've overcome the

'87 Plymouth Shadow: fills fleet gap

lack of sixes and satisfied those operators concerned about power with a turbo package for the four-cylinder. Now we have more worldwide than anyone," Barton says.

Chrysler conducted a market survey on optional equipment that yielded some interesting results. "Men want AM/FM radios and speed control," Barton reveals, "Women want tilt steering wheels and electric door locks."

"With the introduction of the new P bodies for 1987, we now have a full fleet line," Barton states. "We have a great opportunity to penetrate additional market segments, since we can now fill every fleet need."

Ford

Ford fleet sales should keep their strong market share in 1987, selling an expected 361,000 cars and 385,000 trucks next year, according to Ford's General Fleet, Leasing and Rental Manager B.G. Willis. On the car side of the ledger, Ford's Taurus will get the big push in fleet sales efforts for the coming year, as will its Lincoln-Mercury cousin, the Sable.

Willis predicts that the Taurus will top 120,000 units in fleet service in 1987, more than one-third of all Ford fleet sales. Originally introduced with a six-cylinder engine, the Taurus will now feature an optical four-cylinder automatic.

"Major fleets are continually evaluating their acquisition methodology," Willis says, "weighing initial cost, operat-

ing costs, and residual values. Fleet managers are also increasingly service-conscious. Mid-size cars will account for about 60% of the fleet segment of the market this year, so Taurus is in a good position."

Ford's fleet lineup begins with the

subcompact Escort, the world's best selling car, and moves on to the newly improved compact Tempo, the mid-size Taurus and the full-size Crown Victorial, big enough to handle even the most weighted-down sales rep's sample cases. Long-time Ford standbys, Mustang and Thunderbird, are successful in the rental market, Willis reports, with the T-Bird faring well with the executive crowd and in individual leasing applications. The Aerostar van is gaining fleet acceptance, and Ford Econoline van production is at full capacity. Ford expects to introduce a new

Success story: Ford's "Cargo" medium truck has turbocharged diesel box

F-series truck in 1987 with a new anti-skid braking system, an industry first.

"We've done a lot more than make cosmetic changes this year. We have made the third largest investment ever, and we expect good growth in all fleet segments," Willis asserts.

Lincoln-Mercury

Lincoln-Mercury managed to hold its own in the 1986 fleet sales sweepstakes compared to 1985 levels, despite being hamstrung by the late arrival of its sleek, teardrop-shaped Sable and the elimination of the Marquise. Only six-cylinder engines are available with fleet Sables.

According to John A. Rowley, Lincoln-Mercury Major Leasing and Fleet Accounts Manager, 28% of total production goes to fleets, well above the industry average. Fleet managers can pick from a full line including the Lynx sub-compact, compact Topaz, Sable, Lincoln Town Car, and the Mercury Grand Marquise (not to be confused with the now defunct Marquise). The Topaz is unusual in that it provides air-bag protection as an option priced at slightly over $800. "It's a bargain for the protection of a company's most vital

Mercury Sable: smooth operator

assets, its personnel," Rowley says.

Lincoln-Mercury's fleet sales head reports good availability and good sales for Sables, despite the lack of four-cylinder cars at this time, claiming that "fleet managers recognize the resale value of the sixes." Sable is the direct market competitor to the mid-sized Oldsmobile and Buick models, as well as the Pontiac 6000. Lincoln-Mercury's Cougar rounds out the line, although more for the individual lease and daily rental markets.

Lincoln-Mercury is packing options into all its 1987 fleet models, with stereo radios standard in all, accompanied by an extensive laundry list of other free options. A new Fleet Service Plan (FSP) is under test and should be available by the third quarter of 1987.

"It's very similar to a full-maintenance lease," says Rowley. "After a maintenance prepayment, drivers can simply pull in for service, all according to a maintenance schedule supplied by the driver. The fleet manager gets a monthly summary and far less aggravation from the drivers. FSP should eliminate most fleet administrator maintenance headaches."

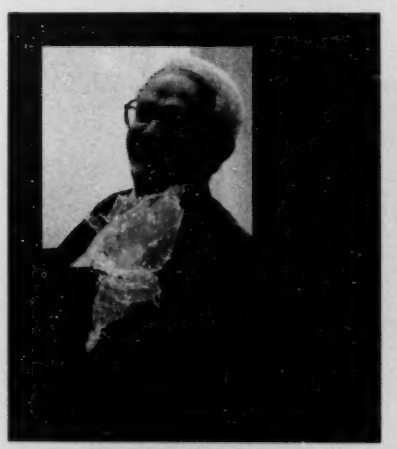
AMC

Lack of product, the marketer's nightmare, has kept AMC fleet sales low. AMC's share of the total car market in the U.S. is just 17%. Although the carmaker's Reliance was well received by the daily rental companies and certain fleets, fleet managers are demanding mid-size cars, and/or compacts at the very least.

Not to fear, says AMC Manager of Fleet Sales and Administration J. Michael Burke. Help is on the way, in the form of AMC's 1988 Medallion, a long-awaited slick new mid-size set for a January 1987 arrival, with March as the target date for fleet availability.

Based on Renault's R21, a hit in France, where it racked up 38,000 orders in its first month on the market, exceeding expected sales by 38%, the Medallion should prove a scrappy newcomer to the fleet marketplace.

The Medallion will be larger than the Renault Alliance and Encore, and will give AMC representation in the mid-size passenger car market segments that account for more than 60% of U.S. car sales," says Joseph E. Cappy, AMC president and CEO. Cappy has announced that the Medallion debut will take place six months before the release of the Renault Premier, a new line of intermediate-size cars, aimed at the 1988 market year, cars that AMC plans



to build at its new $675 million highly-automated Bramlea, Ontario, assembly

plant. Pilot models of the Premier are currently set to roll off the line this December.

According to Burke, the Medallion will carry "the most liberal warranty in the fleet business: five years/50,000 miles." The warranty, plus aggressive fleet allowances should put AMC solidly back in the fleet picture.

AMC Medallion: high fleet hopes

"In addition," says Burke, "the way the scheduling for Medallion has been set up—an '88 model available in March, '87—lets fleet buyers have extra months of depreciation.

Import Update

Japanese carmakers have made limited inroads into the American vehicle fleet market, hamstrung not so much by buyer resistance as by supply problems caused by import restrictions set by the Japanese Ministry of Trade, under pressure from the U.S. government. These restrictions vary by manufacturer, and if anything, have done little more than whet consumer appetite for hard-to-get models. This demand is mirrored by the success of Japanese cars in domestic rental fleets, where sufficient supplies have allowed substantial sale. Rental, and not corporate, fleets account for the majority of Japanese fleet sales in the U.S.

While a 25% import duty in effect on Japanese light truck imports, their supply is plentiful and they sell well, both to the general public and especially for U.S. light utility vehicle fleets.

The availability of Japanese vehicles should improve as American assembly lines begin building Japanese designs.

Nissan

Nissan has been building passenger cars in its Smyrna, Tennessee, plant for some time now, turning out 250,000 vehicles annually, half of which are Nissan Sentras, half of which are various versions of Nissan's light truck, available in 23 different configurations, depending on options. The major Nissan fleet vehicles are the Sentra and Maxima.

Mitsubishi

Mitsubishi sold 25,000 trucks and 50,000 cars in the U.S. in 1985, but has no way of knowing how many went to fleets. "It's a funny situation," confesses Mitsubishi Director of Fleet Sales Don Exum. "Our fleet sales are not always coded. However, we do know that the vast majority of our total sales are going to retail customers, not fleets."

Mitsubishi sales have been kept comparatively low by a combination of factors, Exum feels. "The first are the import restrictions, of course. The second is the Mitsubishi dealer network, which is very small, just 170 dealers nationwide. We're working to expand that network, and we're also developing plans to actively pursue the American car fleet market in 1987, with special pricing at the heart of our effort."

Toyota

Toyota, whose fleet sales have been severely handicapped due to supply problems, expects to make a serious mark on the U.S. fleet market when it opens its new Georgetown, Kentucky, plant, where it will build its Corolla FX-16 automobile in a joint venture with GM. About 20% of the cars imported annually by Toyota, chiefly the Corolla, Tercel and Camry models, are acquired by fleets.

The Toyota small pickup has proved a good seller, with about 13% of its U.S. imports ending up in fleets, according to Toyota, who expects that number to rise with improved availability. "The 'Buy American' feeling that was so sommon a few years ago has faded somewhat," says Toyota Truck and Fleet Sales Manager David Esmond. "The public demand for our product shows in our acceptance in the rental market, where most of our Corolla, Tercel and Camry fleet sales end up." —B.W.

Selected 1987 Projected Ownership and Operating Costs

Make[a]	Model	Fuel Rate (mpg)	Annual Costs[b] For 20,000 Miles	
			Ownership	Total
Cadillac	Seville	16.7	$5,579	$6,986
Chevrolet	Celebrity	26.3	$3,945	$5,918
Chevrolet	Sprint	37.5	$3,739	$4,967
Ford	Tempo	26.3	$3,764	$4,964
Chevrolet	Celebrity	26.3	$3,630	$4,936
Dodge	Caravan	21.3	$3,552	$4,722
Ford	Tempo GL	27.5	$3,491	$4,471
Chevrolet	Cavalier	28.6	$3,353	$4,405
Plymouth	Voyager	21.3	$3,370	$4,400
Ford	Escort	28.6	$3,174	$4,171

Footnotes:
[a] Four-door models unless otherwise noted. Data for models with automatic transmission, air conditioning, power steering, power brakes and power windows. Data for models with 4-cylinder engines unless otherwise noted. Data for models with 4-cylinder engines unless otherwise noted. Data for models with 4-cylinder engines unless otherwise noted

Fleet Fundamentals—Lorillard Style

Five years ago, when Sal Giacchi assumed responsibilities for Lorillard Inc.'s 1,500-vehicle fleet operation, its mileage average was high—16 miles per gallon. Today, that average is 22.4 mpg and Giacchi still isn't satisfied: "For our operation, every mile per gallon we can save is $100,000 worth of fuel measured over a year's time."

Cutting unnecessary costs is at the heart of Giacchi's fleet management philosophy. Lorillard's fleet represents a corporate investment of $15 million, backed by an annual operating budget of $8 million. The fleet is almost exclusively Chrysler products. At one time comprised mainly of Chrysler K-Cars, the Lorillard fleet has moved on to favor mid-sized Chryslers in the passenger area, with Caravans and Ram-Vans (400 in all) in the utility field.

Cars outnumber vans four to one, with Lorillard leasing its fleet from two Minneapolis-based firms, Dart & Kraft Leasing and Lend-Lease. "Our fleet operates throughout the U.S.," Giacchi says. "The cars are chiefly for our sales force, along with the divisional and regional managers. Average useful life for a Lorillard fleet vehicle is 25 months. "We realize our turnover rate is a little high, but in 1983 our tax experts figured out that 25 months was the right time for us," he continues.

Single-source arrangements are not favored by Lorillard, and accordingly, the company arranges fleet maintenance through two contractors: Dart & Kraft and to a lesser extent Gamble L&M Leasing. Of course, the relatively short life of a Lorillard Chrysler vehicle ensures protection under Chrysler's 5 year/50,000 miles program. "We've had good success with it," he says.

Giacchi's also had good success with today's front-wheel-drive, four-cylinder cars. "A number of companies that went with the smaller cars at the time of the fuel crunch in the late '70s went back to big cars after the dust settled. We've taken the avenue of not staying with the K-Car type but going instead with a larger car for the field sales people. At the same time, we've stayed with the four-cylinder engine. The added costs of a six-cylinder fleet are astronomical. We found initial added costs for six-cylinder cars to be $250 to $350 per cylinder annually, along with a one-to-three mpg loss. The only area where there were advantages to the six-cylinder was in the used market, where there was a small benefit.

The lessons of fuel shortages were not lost on Giacchi. He counsels other

managers "never to forget them. Keep those days in mind. Just because fuel is available today, don't acquire less fuel-efficient cars just to satisfy your sales forces' whims."

Heads-up tax management figures prominently in Giacchi's overall fleet strategy. The repeal of the Investment Tax Credit (ITC) is cause for serious concern. "Losing the ITC will mean a difference of between $300 and $600 a year on every vehicle," Giacchi says.

Could that mean a cut in fleet size? "For this company, probably not. Our sales force will still have to get out in the field, that doesn't change. See, our cars are not perks. So it wouldn't make that much difference in terms of our overall day-to-day operations."

Use of outside management services doesn't appeal to Giacchi: "We've talked to some that wanted to reorganize our operation into one in which the drivers are given an allowance toward vehicle upkeep. I just don't believe those companies are as expert as they think. For a small operation, say with 50 to 100 cars, it might be fine. But for us it's not cost-effective; drivers don't take good care of the cars if they don't get enough money.

In-house management at Lorillard has meant cost-cutting computerization. "It's dynamite," Giacchi enthuses. "We've just converting to our new system and by early 1987 we hope to be 100% on it." Giacchi's setup centers on a network of IBM PCs and user-friendly 1-2-3 Lotus accounting software.

Giacchi is a seasoned fleet management professional, with almost 20 years' experience in the field and is among the first graduates of the Wharton School of Business Certified Fleet Management program.

His final advice to fleet managers? "Drive every vehicle. Physically get in it and drive it so you know it the way your drivers do. Anticipate the worst possible cases. And save your company a lot of money. Basically, that's the ideal. It's simply a matter of formulating a sensible policy, while providing personnel with the vehicles they need." —B.W.

Fleet Management Changes

The face of fleet management is ever changing. In the past 20 years, there has been at least four major changes in fleet management, according to Robert Berke who retired last year after serving for 20 years as executive director of the National Association of Fleet Administrators, Inc. (NAFA).

The changes include the automobile itself; government regulation of the industry; development of the desk-top computer; and the unpredictability of fuel supplies and prices.

Twenty years ago, fleet managers' choices basically were limited to 4,000 pound, V-8 powered Chevrolets, Fords and Plymouths. Optional equipment was limited to a radio.

The first major change occurred when the Federal Government entered the automobile industry.

It was just 20 years ago that Congress established the Department of Transportation and issued the first safety related regulations. In 1975, Congress, reacting to the first oil crisis established the C.A.F.E. (Corporate Average Fuel Economy) standards requiring car makers to double their average fuel economy from an estimated

13.75 mpg to 27.5 by 1985. Last year, the DOT scaled back the requirement to 26.5 mpg.

Fleet managers joined the rush to smaller, more fuel efficient cars and, in some instances, led it. The Association's NAFCAR research projects of 1975 and 1977 called for a fleet car with a 106 inch wheelbase weighing less than 3,000 pounds, a six cylinder engine, and seating for five. This is almost exactly what today's popular cars offer.

Now with stable or declining fuel prices (about 40 cents a gallon less than two years ago), fleet managers who have completed their downsizing (more correctly called downweighting) must withstand pressure from sales and marketing management types seeking a return to larger and more powerful cars that may offer more comfort but poorer fuel economy.

Today's automobile is a far different vehicle than its counterpart of 20 years ago. Competition, new technology, and government regulation have combined to change its face and form, so today's typical fleet car is a far better vehicle than its predecessors.

Almost as spacious inside, it is smaller, handles and brakes better, needs less routine maintenance and gives far better fuel economy. However, it costs a great deal more, is more difficult to maintain because of its increased complexity and the chronic shortage of trained technicians.

Adlore Chaudier, executive editor, Runzheimer International, Inc., says, "Most fleet managers polled by us emphasize two goals—to computerize their fleet records and to reduce or control maintenance costs. Interestingly, the means to achieve the second goal is to accomplish the first."

The computer has become a basic component of the modern automobile, controlling a wide range of functions from braking to carburetion. It is also a key weapon in the fleet manager's campaign to control fleet costs.

Programs are now available from a wide variety of sources that give fleet managers data on maintenance scheduling, replacement timing, operating expenses, and inventory control.

This information is essential for a well managed fleet, Chaudier says, because "the emphasis on cost control in recent years brought fleet operations to the attention of corporate officers who tend to look at the fleet from a management, not a technical point of view."

There is one other aspect of the changing face of fleet management that must be pointed out, Berke says. Today's fleet managers are better educated than ever and tend to have administrative rather than technical backgrounds. One reason is the rapid increase in the number of women now holding fleet management positions.

Twenty years ago, there were only two or three women who belonged to NAFA. Today, more than 20% of the members listed in the Association's roster are female. For many, it is the first step on the corporate management ladder and for career-oriented women, fleet offers challenge and opportunity.

These fairly recent entrants into a previously male-dominated field are extremely active in their professional association.

For example, women now are serving as chairpersons of eleven of the Association's twenty nine chapters, and for the first time in its history the National Association of Fleet Administrators, Inc., itself has a woman president, Mrs. Helen Bland, fleet manager for Hallmark Cards, Inc.

The face of fleet management has indeed changed radically in the past two decades, and it's looking better all the time. —L.W.

Truck Deregulation Shifts to States

Deregulation on the Federal level is now pretty much a *fait accompli*, thanks to legislation, court decisions and new ICC rules. Private fleets engaged in interstate trucking have already begun to reap the benefits. Even elimination of the ICC's remaining role in truck fleet regulation is foreseen by some by 1987. But fleets operating on an intrastate basis, and many of the interstate fleets as well, are still severely hampered by state regulations.

Fuel miser: GMC's '87 medium diesel

Hundreds of diverse, outdated and contradictory state regulations and requirements face fleet operators. Only seven states may be said to be truly "deregulated"—Florida, Arizona, Wisconsin, Maine and Alaska; New Jersey and Delaware were never "regulated" states to begin with.

Some of the options offered by Federal deregulation are not available on the state level—only 25 or so states allow "single-source" leasing, for example. The contrast between the Federal and state situations is dramatic. An American Trucking Association's Private Carrier Conference spokesman described it this way: "On the Federal level, you're dealing in a post-1980 timeframe; on the state level, it's a 1935–1980 timeframe."

In an effort to eliminate the confusing maze of state regulations, industry activists are advocating Federal legislation limiting the states' ability to regulate trucking. In fact, such a preemptive provision was a part of legislation placed before the 1986 Congressional session and "will certainly be resurrected in 1987", says Richard Schweitzer, Legislative Counsel for the Private Truck Council.

The alternative is a constant, unrelenting effort at the state level, working within each individual state to eliminate its restrictive regulations. Court suits challenging such regulations are one approach, administrative reform by legislation is another.

The extent of such effort is confirmed by Schweitzer, "Nominally, I function as a 'Washington lobbyist,' but lately I've been more concerned with what's going on in Harrisburg, Little Rock, Austin and other state capitals." —T.R.

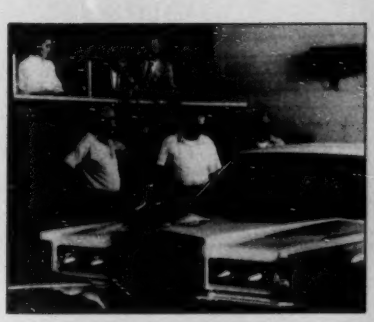
Final Stop: The Auction Block

Aside from sales to employees, auctions continue as a key outlet for used fleet vehicles at replacement time. How big is the industry? One major firm, Anglo American Auctions (in action at right), expects to turn over some 250,000 used vehicles in 1986, through 12 U.S. locations. The company gets 51% of its vehicles from dealers—who use the auction as a tool to adjust inventory—and 28% from fleet and lease owners; the remainder comes from manufacturers.

The way auctions work is simple enough: The seller of used vehicles—in this case the corporate fleet owner—delivers the cars in advance for any needed repairs and/or refurbishment. The prospective buyer is allowed to inspect all vehicles, and in Anglo American's case, can test drive the cars on the company's track.

Unless the seller has established a minimum selling price that is not met during the bidding process, vehicles are awarded to the high bidder. Generally, the seller pays a fee to enter a vehicle for sale and an additional fee once the sale is made. The buyer also pays a fee, and there are add-on charges for any incidental services, such as reconditioning, pickup delivery and appraisals. Not a bad business and an efficient way to redistribute used vehicles and establish a degree of pricing stability.

But it's not without problems: "Clocking", or turning back the odometer, is a perennial one. According to Gary Dickinson, Anglo American's Director of Security, "Because of the expertise of clockers and legal loopholes allowing them to cover their tracks in state title records, no security system can successfully screen out *all* clocked cars."



However, improved screening methods are paying off (Anglo American turned up only ten cases of tampering among 500,000 cars moved in 1984) and legislation is pending that will make odometer tampering a felony.

Meanwhile, *caveat emptor* is the rule for those on the other side of the gavel. For the fleet seller, auctions will continue to be excellent outlets; provided you make sure the firm is a reputable one before you register any vehicles. —J.C.

Information, Please.

1986 Automotive/Truck Guide Books: Facts, figures and fleet recommendations, available from:

- Avis Car Leasing, PO Box 117, Carle Place, NY 11514.
- Gelco Fleet & Management Services, 3 Gelco Dr., Eden Prairie, MN 55344
- Hertz Car Leasing, 1633 Broadway, New York, NY 10019
- Peterson, Howell & Heather, PO Box 2174, Baltimore, MD 21203
- McCullagh Leasing, 30803 Little Mack Ave., Roseville, MI 48066
- Leaseway, 3700 Park East Dr., Cleveland, OH 44122
- Wheels, Inc., 6200 N. Western Ave., Chicago, IL 60659

Fleet Management
Fleet Management, a comprehensive work by John E. Dolce, covers all aspects of fleet management and cost control, with emphasis on trucks. 320 pp., $31.95, from McGraw-Hill, 1221 Avenue of the Americas, New York, NY 10020.

Runzheimer Reports from: Publications Division, 555 Skokie Blvd., Northbrook, IL 60062.

- *Runzheimer Reports on Transportation*—Monthly newsletter on car/fleet management ($195/yr).
- *Runzheimer on Cars and Living Cost*—Informative and *free* quarterly newsletter on items of interest to managers.
- *Survey and Analysis of Business Car Policies and Costs*—Complete 1987/88 report; available Spring '87; ($296).
- Runzheimer Reports on Travel Management—Steps to control rising travel costs; monthly newsletter, ($245/yr).

NAFA Fleet Manager's Manual
Everything one needs to know about running a corporate fleet, and more; includes sections on acquisition, expense control, maintenance and safety. $85 per copy, from: National Association of Fleet Administrators, 295 Madison Avenue, New York, NY 10017, (212) 689-3200.

THE TOYOTA TOUCH

Over 1,000 Toyota Dealers nationwide are readily available to meet your parts and service requirements. Their commitment to customer satisfaction – vehicle purchase through delivery and service – is what the Toyota Touch is all about.

CONTACT TOYOTA'S REGIONAL FLEET MANAGERS TODAY FOR MORE PERSONALIZED INFORMATION.

NATIONAL FLEET DEPARTMENT
Toyota Motor Sales, U.S.A., Inc.
Don Esmond
(213) 618-4549

BOSTON REGIONAL OFFICE
Robert Skaggs
(617) 339-5701

CHICAGO REGIONAL OFFICE
Bob Seale
(312) 260-6240

CINCINNATI REGIONAL OFFICE
Joe Rose
(513) 745-7500

DENVER REGIONAL OFFICE
Joe Bryant
(303) 274-1304

GULF STATES TOYOTA, INC.
J. D. MacArthur
(713) 744-3300

KANSAS CITY REGIONAL OFFICE
Mark Nichols
(816) 891-1000

LOS ANGELES REGIONAL OFFICE
Ted Lee
(714) 833-3023

MID-ATLANTIC TOYOTA DISTRIBUTORS, INC.
Jim Thompson
Toyota Building
(301) 560-1500

NEW YORK REGIONAL OFFICE
Bill Fay
(201) 575-7600

PORTLAND REGIONAL OFFICE
Bob Copin
(503) 255-6430

SAN FRANCISCO REGIONAL OFFICE
Brian Becker
(415) 830-3400

SOUTHEAST TOYOTA DISTRIBUTORS, INC.
Ted Pass
(305) 436-2000

DUN'S ANALYSIS

BUSINESS FAILURES MIRROR THE BICOASTAL ECONOMY

The dichotomous Sun Belt-Frost Belt economy of the 1970s has given way to the equally dichotomous bicoastal economy of the 1980s. The high-tech and service-oriented states of the East and West Coasts are booming as the energy, farm, mining and manufacturing depression drags down the nation's heartland.

The two-tiered situation is mirrored in the business failures statistics compiled by The Dun & Bradstreet Corp. *(see map)*. Failures in the first six months of 1986 were down 12.5% in New England and 5.3% in the South Atlantic region (Maryland to Florida) over the same period last year. At the same time, failures soared 53.1% in the energy-battered West South Central region (Texas, Oklahoma, Louisiana and Arkansas) and 25.7% in the West North Central states (Minnesota, Iowa, Missouri, Nebraska, Kansas and the Dakotas), which have been hard-hit by the agricultural depression.

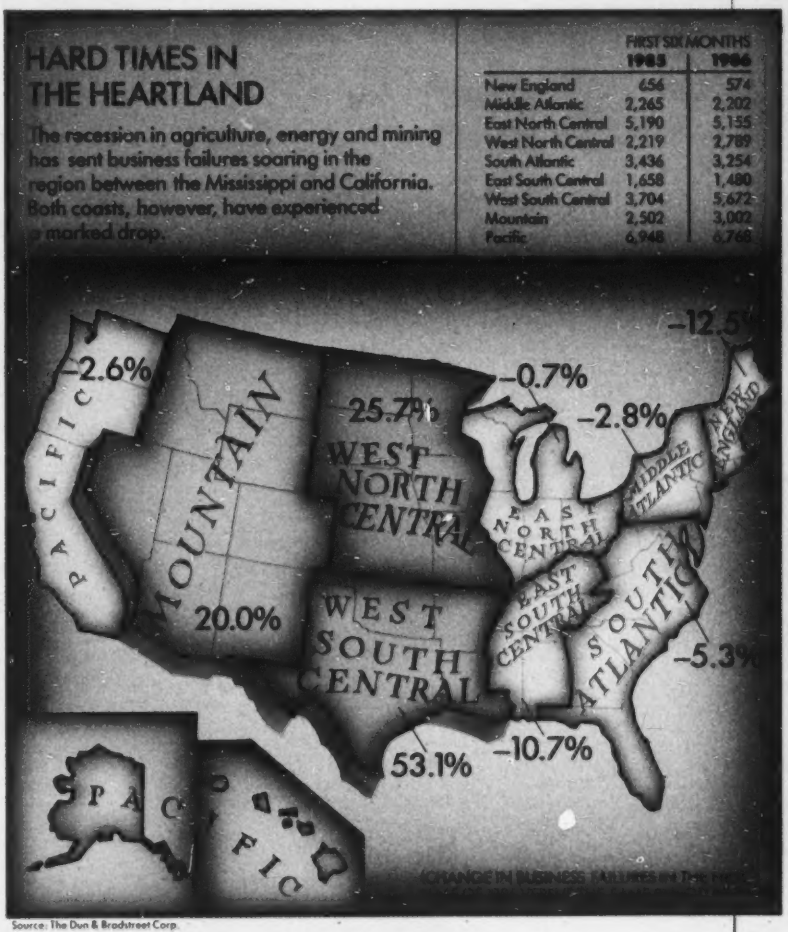
The bicoastal economy is also reflected in the Dun & Bradstreet Corp.'s statistics on new business starts. In the first six months of 1986, business launchings in New England were 31.9% higher than for the same period last year, while the Middle Atlantic region experienced a 28.3% increase. At the same time, new business starts dropped 5.9% in the West South Central states and 2.5% in the Rocky Mountain area.

Small business has been the backbone of the economic recovery of the 1980s, since it has created most of the 11 million new jobs the nation has seen since the decade began. So the sag in new enterprises in the nation's most troubled areas does not augur well for a recovery very soon.

An outstanding exception to the troubles in the nation's heartland is Michigan, which has experienced a sharp turnaround from its virtual depression of the early 1980s. The dominant auto industry enjoyed a resurgence and is operating at a fairly high level of capacity again. Meanwhile, the state has been able to attract many budding high-tech companies to the Detroit suburbs, particularly in the area around the University of Michigan in Ann Arbor.

Michigan's comeback is reflected in the Dun & Bradstreet figures, which indicate that the state experienced an 18.2% increase in business starts in the first six months of 1986 compared with the same period the previous year. The depressed East North Central region, of which it is a part, had only an 8.2% rise in new enterprises. Moreover, the Wolverine state had a modest 2.7% increase in business failures during this period, compared with an 8.1% rise for the nation as a whole.

—JOSEPH W. DUNCAN



Joseph W. Duncan, formerly Chief Statistician of the Office of Management and Budget and Chairman of the United Nations Statistical Commission, is Corporate Economist of The Dun & Bradstreet Corp.

Employers

Willing workers available now at as little as ½ your usual cost.

This is your chance to get help you've needed, but thought you couldn't afford.

No business too large or too small. Call your private industry council or write **National Alliance of Business,** P.O. Box 7207, Washington, D.C. 20044

A Public Service of This Publication Ad Council

INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

INVESTMENT	(8/29/86) Recent Price or Yield	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index fund, capital gains and dividends reinvested)	$27.69/share	$10,745	$13,818
per cent change		+7.5%	+38.2%
Bonds (30-yr., 11¾% Treasury Bond)			
MARKET VALUE	$142.90	$10,614	$13,216
ACCUMULATED INCOME		$73	$1,086
TOTAL		$10 687	$14,302
per cent change		+6.9%	+43%
Money Market Fund	5.74%	$10,048	$10,694
per cent change		+.5%	+6.9%
Gold (Krugerrands)	$388.20/oz.	$10,703	$11,640
per cent change		+7%	+16.4%
HOUSE PRICES	**Recent**	**Month Earlier**	**Year Earlier**
Existing House	$107,100	$108,900	$93,700
per cent change		−1.6%	+12.5%
New House	$117,100	$115,700	$104,400
per cent change		+1.1%	$10.8%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Manfra, Tordella & Brookes,Inc.; Federal Home Loan Bank Board.

losses, who need earnings to offset them, consider investing in oil and gas income or royalty partnerships.

Owning pieces of producing wells is less risky than a share in a drilling partnership that looks for oil and gas, but it is still a dicey venture. The investor stakes, say, $15,000 or so for a share and is paid back (optimally in three years) from the oil and gas sales. The total return hinges on oil prices, production costs and the accuracy of the engineer's estimates of the property's petroleum reserves.

Royalty interests, which are an override—that is, a fixed percentage of a well's revenues before costs—are somewhat safer. The royalty holder's chief risk: If falling prices make the well uneconomical to operate, the operator might shut it in. Royalty interests ought to pay back in four years.

With small oil and gas producers selling off properties to pay their debts, interests in established wells, says Harry H. Wise of HW Associates, a New York private partnership operator, are reaping a 15% or better rate of return, assuming oil is selling at $13 a barrel and gas at $2 a thousand cubic feet. "I don't deny that the price will break again," he says, "but over the next seven years or so, it's more likely to be higher than lower."

But finding oilmen willing to sell is not easy. According to Angeles Corp.'s Winston, despite the oil patch's well-publicized troubles, the market is incredibly tight. HW Associates' Wise agrees that competition for large properties is intense, but, he says, deals of less than $1 million have become available since the end of July. He believes there will probably be another major buying opportunity before year-end.

Whether staking cash in an income, royalty or drilling partnership, investors must investigate carefully the track record and probity of the general partner and calculate the costs of operating fees and sales commissions. Wise figures that brokerage and management fees will reduce the return on a production partnership from 15% to almost 12%. —A.H.

SINGLE COPY PHOTOCOPY POLICY

Authorization to photocopy items for internal or personal use, or the internal or personal use of specific clients, is granted by DUN'S BUSINESS MONTH for libraries and other users registered with Copyright Clearance Center (CCC) Transactional Reporting Service, provided that the base fee of $1.25 per copy is paid directly to CCC, Code 0279-3040/84, 21 Congress St., Salem, MA 01970.

EDITORIAL REPRINTS AVAILABLE

Reprints in quantities of 100 or more of articles appearing in this issue are available at low cost. Please call or write Ms. Cyndie Pogue, DUN'S BUSINESS MONTH, 875 Third Avenue, New York, NY 10022, (212) 605-9461.